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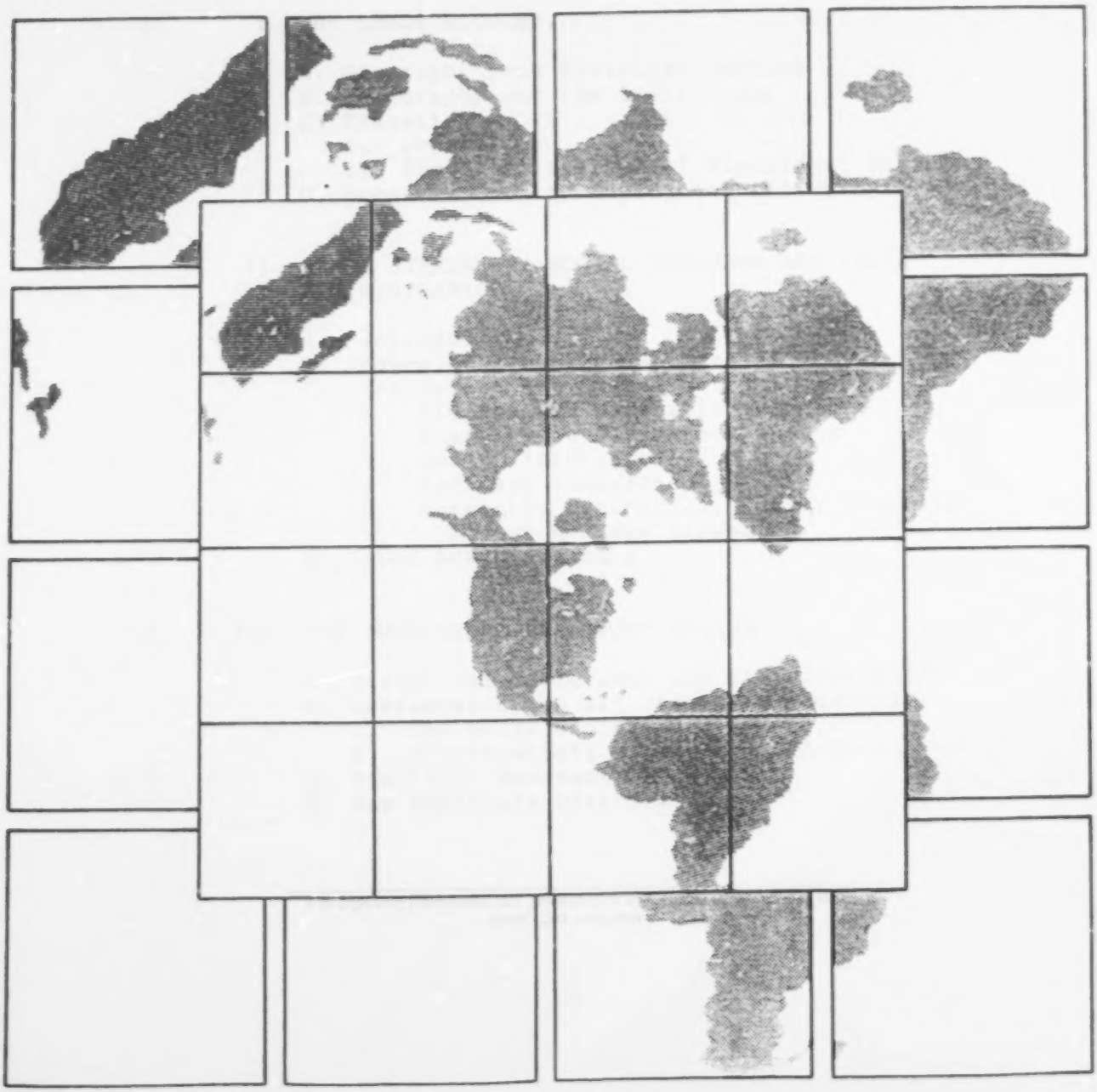

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FOREIGN LABOR TRENDS REPORT

Federal Republic of Germany

1988 - 1989

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KEY LABOR INDICATORS

	1987	1988
Per capita GNP, current prices (DM)	33,064	34,540
---, constant prices	26,895	27,774
Population, by major ethnic groups (000)		
Germans	56,569	
Foreigners		
Europe	3,927	
Turks	1,481	
Yugoslavs	598	
Italians	544	
Greeks	280	
Spaniards	142	
Africa	149	
America	134	
Asia	357	
Birth rate, per 1000 inhabitants	10.5	11
In-migration, by nationality (000)		
Europe	518	
EC countries	246	
Germany	149	
Italy	45	
Greece	16	
Turkey	67	
Austria	13	
Africa	17	
America	25	
Asia	50	
Australia	1.5	
---, total	615	
Out-migration, by destination (000)		
Europe	297	
EC countries	111	
Turkey	47	
Yugoslavia	25	
Poland	72	
Africa	16	
America	41	
USA	29	
Asia	38	
Australia	3.7	
Total	399	
Life expectancy at birth, total		75.3
---, male		71.8
---, female		78.4

KEY LABOR INDICATORS (continued)

	1987	1988
Adult literacy rate (%)	99	99
Civilian labor force, male (000)	17,814	17,904
---, female	11,627	11,777
Employment in agriculture (000)	1,180	1,155
Labor productivity, mfr. (1985=100)		
Per employee	101.1	105.5
Per hours worked	103.3	107.9
Work related accidents and illnesses (000)	1,802	
Work days lost from industrial disputes	33,325	
Avg. weekly earnings by major industry (DM)		
Construction	712	742
Manufacturing	705	734
Mining	756	801
Durable goods	750	789
Chemicals	770	804
Food and beverage	672	697
Total annual earnings incl. bonuses etc. (DM)[1]		
Laborer	28,640	29,571
Clerk-typist	33,951	35,390
Mechanic (trades)	37,306	38,537
Commercial specialist	67,501	69,819
Value of supp. benefits as % of mfr. earnings	43.5	(1984)
Avg. pers. income/year at current prices (DM)	25,677	26,890
Avg. disposal income, per month (DM)	2,123	2,194
Rate of change in consumer prices (%)	0.2	1.2

1) Based on the Embassy's compensation plan for FSNs. Total annual earnings include basic salary, 12 percent bonuses, and a DM 400 meals allowance.

I. THE LABOR ECONOMY

A. Geographic and Political Setting

The Federal Republic of Germany (FRG), whose capital is Bonn, lies in the center of Europe. It has an area of 248,708 square kilometers (96,000 square miles), slightly smaller than the state of Oregon. Its neighbors in the West are France, Luxembourg, Belgium, and the Netherlands. It is bounded to the East by Czechoslovakia and the German Democratic Republic (GDR); on the South by Austria and Switzerland; and on the North by Denmark and the North and Baltic Seas. As a consequence of World War II, Germany has been divided into two states, the FRG and GDR, separated by a 1378 km (861 miles) long, and--on the East side--fortified border. In 1988, the FRG (including West Berlin) has a population of about 61.3 million, including 4.6 million foreigners.

The "Basic Law" (Grundgesetz), the FRG's "provisional" constitution of 1949, defines the country as a democracy ruled by law, a "social state", and a federation. It assigns the exercise of federal power to a legislature, an executive, and a judiciary. It provides for a bicameral Federal Parliament, which includes the Bundestag (the House of Representatives), whose members are elected for a 4-year term by secret ballot; and the Bundesrat (the Federal Council), consisting of members of the 10 Laender (State) governments, plus representatives, with limited voting rights, of the West Berlin Senate.

The Bundespräsident (Federal President) is the head of state. He is elected for a 5-year term by the Bundesversammlung (the Federal Convention), composed of the members of the Bundestag (including West Berlin) plus an equal number of representatives elected by the state legislatures.

The executive powers are assigned to the Bundesregierung (Federal Government), which consists of the Federal Chancellor and the Federal Ministers. The Chancellor has a strong position, therefore, the FRG's governmental system is often described as a "chancellor democracy". A representative of the strongest party in the Bundestag, he is nominated by the Federal President, and--alone of all the other members of the federal government--is elected by the Bundestag. He determines the guidelines of government policy. A unique provision of the Basic Law is the so-called "constructive vote of no-confidence". This requires the Bundestag, if it wishes to pass a vote of no-confidence and thereby remove the chancellor, to simultaneously elect a successor.

The FRG consists of the following 10 "Laender" (states): Baden-Wuerttemberg, Bavaria, Bremen, Hamburg, Hesse,

Lower-Saxony, North-Rhine-Westphalia, Rhineland-Palatinate, Saarland, and Schleswig-Holstein, plus the state of Berlin (which has a special status). In part reconstituted, in part created in 1945, the Laender predate the FRG and have their independent powers. Each state has its own constitution, but it nevertheless has to abide by the same democratic principles established by the Basic Law. Major fields of independent state control are local government, cultural affairs (including education), police power, and aspects of environmental protection legislation. The states are also responsible for implementing federal legislation without any federal government supervision. Only in a few cases, explicitly listed in the Basic Law, must the state governments follow federal directives.

In any democracy, political parties are among the most important institutions. Taking this into account, the Basic Law defines in Article 21 the primary task of political parties as participating "in forming of the political will of the people". The parties must be democratically structured and are required to render public account of their finances. Currently, political activity is centered around five parties: the Social Democrats (SPD); the Free Democrats (FDP); the Christian Democrats (CDU); the CDU's Bavarian counterpart, the Christian Social Union (CSU); and the "Greens" (Environmentalists). Although smaller parties exist, they are not now represented in the Bundestag. This is the result of the "five-percent clause", that prevents parties which obtain less than five percent of the vote from being represented in the Bundestag. Since October 1982, the FRG has been administered by a "conservative-liberal" coalition government of the CDU/CSU and the FDP.

The highest court of the FRG's judicial system is the Federal Constitutional Court (Bundesverfassungsgericht). It is often termed the guardian of the Basic Law and had no prior equivalent. It examines, inter alia, the constitutionality of federal and state legislation and appeals from citizens who charge violations of their basic rights by the authorities.

There is also a complex system of labor and social courts at the local, state, and federal level. The labor courts (Arbeitsgerichte) deal with labor-management disputes, employer-employee disputes (such as dismissals), and all matters concerning the works constitution and codetermination laws. (See III.B. below).

This system is supplemented by social courts (Sozialgerichte) that deal with the entire field of social legislation.

B. Demography and the Labor Force

According to the 1987 census findings, there were some 61.3 million people living in the FRG and West Berlin, including almost 4.6 million foreigners. The FRG is densely populated, highly urbanized, and linguistically and culturally united. In the years immediately after World War II, the FRG absorbed more than 14 million refugees from Germany's former eastern territories. Although that influx was integrated into the FRG's political, social, and economic life, recent large numbers (200,000 pa) of emigrant Ethnic Germans ("Aussiedler") from Eastern Europe are the subject of some controversy, primarily because they are entitled to all the benefits of German citizenship, but are not universally perceived as being German in terms of language and culture.

Another issue is the role of foreign workers and their families. During the late 1960s, foreign workers, particularly from Mediterranean countries, were recruited in large numbers to meet manpower shortages. However, in 1973, in the wake of an increasingly sluggish economy and rising unemployment, and when number of foreign workers had reached 2.6 million, the government ordered a hiring freeze. Since then, the total number of foreigners working in the FRG has decreased to slightly below 1.6 million (June 1988). The largest non-European Communities (EC) national groups amongst them are: the Turks (508,000) and Yugoslavs (296,000); of the EC nationals, Italians (187,000) make up the largest group.

Since 1974, the population of the FRG has been declining. At 10.3 percent births per 1000 inhabitants per year, the FRG has the lowest birth rate in the world and is no longer replacing its population (deaths outnumber births). Should the current trend continue, this would have far-reaching consequences for the FRG's economy and society. By the year 2030, for example, the population will have decreased to 38.3 million.

About 85 percent of the population belong to Christian churches, almost half of each Catholic and Evangelical (Lutheran), with a small minority of other Christian churches. While the Lutherans are predominant in the North, Catholics represent a majority in the South and in the Rhineland.

C. Education

1. General

Under the German Federal System, the responsibility for education belongs to the states (Laender). Beginning at age six, primary through secondary education is free. School

attendance is compulsory until age 18, i.e. for 12 years, during which full-time school attendance is required for 9 years, and part-time attendance at vocational schools for the final 3 years (for a discussion of vocational training see section I.C.2. below). Some states require 10 years of full-time schooling. More than 20 percent of the school age population are enrolled in the academic secondary "track" (Gymnasium), which begins with the fifth grade and ends either with an examination (after the tenth grade) or with final graduation (Abitur) after 13 school years. The latter qualification entitles students to enter universities.

Universities do not charge tuition fees, but limit admission based on available space in the various faculties and the qualifications of the applicants. In recent years, increasing numbers of high school graduates have applied for university entry, causing serious strains on the physical capacities of the institutions. To cope with these problems, state authorities have introduced a centrally administered system to distribute available university slots, and an increasing number of applicants have been refused admission.

2. The "Dual System" of Vocational Training

The German apprenticeship training system is one of central features of the country's labor economy. Termed a "dual system" because it combines on-the-job training with classroom instruction, it provides a majority of the country's teenagers with 3 to 4 years of practical experience as apprentices (Lehrling) learning the skills of a recognized occupation. There are about 400 recognized occupations for which formal training is required. The system covers virtually every activity, with employers in the private and public sectors offering training slots in manufacturing, the crafts, office work, and the retail trades. The training curriculum and standards are established by regulations, issued by the responsible federal ministries, and based on recommendations by business associations, employers organizations, and trade unions. The training concludes with an examination held by the autonomous organization representative of the occupation, such as a chamber of industry or crafts; and there are representatives of employers, unions and vocational schools on the examination board. Often the successful apprentice stays with the firm that trained him. During their training, the apprentices receive low monthly wages--usually set by collective bargaining--that differ from branch to branch. Factory training is financed by the firm itself. The costs vary according to the nature of the training, the occupation for which the training is provided, and the size of the firm.

In addition to equipping young persons with a solid set of marketable skills, the system has some other notable side effects. By providing young people with a full-time transition station between school and work, it has kept youth unemployment in the FRG relatively low (between five and six percent in 1988) in comparison with most other industrialized countries.

D. Economic Growth, Employment, and Unemployment

The FRG is one of the major industrial countries. In terms of overall economic performance, it ranks fourth in the world; in world trade it comes second. The two sectors contributing the most to the FRG's gross national product (GNP) are manufacturing and the service sector. The primary industries (agriculture, forestry, fishing, and mining) account for only a small share in GNP. Exports currently account for more than one-third of the GNP. The total GNP in 1988 was DM 2,121 billion, 5 percent higher than 1987. In real terms, GNP grew 3.4 percent to DM 1,699.8 billion, the highest growth reached since 1979.

In 1988, of a total population of around 61.3 million, roughly 27 million (44 percent) were gainfully employed. The total labor force was 28,288,000, approximately 180,000 higher than in 1987. The employed labor force was distributed as follows:

TABLE 1 -- Distribution of the Employed Labor Force by Sector (1988)

40.5 percent in manufacturing (industry, manufacturing trades, construction)
36.3 percent in other sectors, primarily services
18.1 percent in commerce and transportation
5.1 percent in agriculture and forestry.

Source: Federal Statistical Office (FSO)

As with most other industrialized countries, the FRG is currently experiencing a structural change from an industrial to a service economy, but still retains a very large proportion of its population in manufacturing, as defined by the Organization for Economic Cooperation and Development (OECD).

TABLE 2 -- Comparative Proportion of Work Force employed in Manufacturing (1985)

FRG	US	France	Japan	UK	Sweden
26.5	19.8	26.2	28.6	25.7	23.8

Source: OECD

According to the FSO, the additional jobs created in 1988 lifted overall employment by 0.7 percent to an annual average of about 26 million. The number of employed wage and salary earners rose by 139,000 to 22.701 million, while the number of self-employed decreased slightly by an estimated 0.5 percent to an annual average of 3.236 million. Nearly all of the jobs were created in the service industry. Women benefited the most from the continuing trend towards a service economy. According to the FSO, almost 70 percent of 1.8 million jobs created in the service sector between 1974 and 1988 were filled by women. In the past 10 years, the female participation rate in civilian employment rose from 34.8 percent to 39.4 percent. But this figure remains relatively low by OECD standards and measures.

TABLE 3 -- Comparative Female Participation Rates (1986)

FRG	US	France	Japan	UK	Sweden
51.4	66.5	57.2	57.4	63.5	80.5

Source: OECD

II. LABOR STANDARDS, SOCIAL PROGRAMS AND THEIR ADMINISTRATION

A. Introduction

As noted (see I.A. above) the Basic Law defines the FRG as a social state (Sozialstaat). This requires the government to protect all citizens from social insecurity and to work for "social justice". This concept is similar to, but broader than that of the "welfare state". However, due to historical and legal factors, the FRG does not have a comprehensive "labor code". The administration and enforcement of the wide variety of laws affecting labor conditions is decentralized. That said, however, laws providing for national health care, accident insurance and pensions exist and cover all workers. Wages, working time and vacations, on the other hand, are essentially determined through autonomous collective bargaining.

B. Wages, Working Conditions, and Benefits

The FRG has no minimum wage law. Wages and salaries are determined either by collective bargaining agreements or individual contracts (see III below). Collective bargaining agreements are legally binding and can be enforced through the courts. Maximum regular weekly working time, as set by law, is relatively high--48 hours. As in the case of wages, however, real work time is determined by collective bargaining. Since 1986, average scheduled working time has been under 40 hours per week and is still declining as more and more agreements are reached calling for weekly work time reduction. Vacations, legally fixed at a minimum of 3 weeks per year, have been extended through collective bargaining, to about 5 weeks. Comparisons of yearly scheduled working time among OECD members consistently rate Germans as working the least number of hours.

Table 4 -- INTERNATIONAL
HOURS OF NEGOTIATED SCHEDULED WORK
SITUATION AS OF NOVEMBER 1, 1988

	AVERAGE WORKWEEK (hours)	ANNUAL VACATION PLUS ADDITIONAL FREE TIME (days)	HOLIDAYS (days)	AVERAGE WORK YEAR (hours)
FRG	38.4	30	10	1,697
DENMARK	38	25	8	1,733
BELGIUM	38	20	11	1,748
NETH.	40	36.5	5	1,756
FRANCE	39	25.5	9	1,767
ITALY	40	31	9	1,768
UK	39	25	8	1,778
LUXEMB.	40	27	10	1,792
SPAIN	40	22	14	1,800
GREECE	40	22	9	1,840
IRELAND	40	20	8	1,864
PORTUGAL	45	22	14	2,025
AUSTRIA	38.9	26.5	11.5	1,735
NORWAY	37.5	21	8	1,740
SWITZ.	41	22.5	8	1,890
SWEDEN	40	25	8	1,824
FINLAND	40	33	6	1,776
USA	40	12	10	1,912
JAPAN	NA	NA	NA	2,149

Source: Federation of German Employers Associations - Bundesvereinigung Deutscher Arbeitgeberverbaende (BDA)

Approximately 90 percent of wage and salary earners are covered by a collective bargaining agreement, which partially explains why wages are relatively high despite the lack of a minimum wage law, and why working time and vacation provisions so exceed the legal requirements. The extensive applicability of collective bargaining agreements is due to two factors. The first is that employers generally negotiate as members of an association. Any agreement thereby reached is thus legally binding on all members of the association; and practically all employers belong to the appropriate association. The second is that the Ministry of Labor has the authority to declare a collective bargaining agreement "generally binding" (Allgemeinverbindlichkeit), which means that all employers in the industry covered by the agreement must abide by its provisions, regardless of whether or not they are members of the association that signed the agreement. The authority to issue such a decision is limited to contracts which cover more than 50 percent of the workers in an area, and must be based on a finding that it would be in the "public interest". In 1987 some 560 agreements covering about 4 million workers were subject to such findings.

C. The Social Net System

By virtue of tradition going back to the late 19th century, the FRG has developed a comprehensive social net consisting of: unemployment benefits, old age pension schemes, national health insurance, workmen's compensation programs, maternity protection, and other family benefits.

Mandatory insurance plans cover all blue and white collar workers against unemployment, old age, disability, and industrial accidents. Health insurance coverage is compulsory for those blue and white collar workers whose monthly earnings are below a certain ceiling. The ceiling is adjusted upwards every year in line with wage and salary developments of the previous year. For 1989 it was set at DM 4575 (US$2540).

In 1988 the payroll tax based social security taxes for the health, unemployment, and old-age pension systems, borne equally by employers and employees, rose to almost 36 percent of the workers' monthly pretax earnings--the highest contribution rate in the FRG's history. Accident insurance is financed exclusively by employer contributions. The programs are operated by autonomous bodies composed of joint (labor-management) or tripartite (labor, management, and government) representatives.

1. Old Age and Disability Pensions

One of the major pillars of the FRG's social net, the mandatory pension program, covers all wage and salary workers. In addition, there are special systems for the self-employed, miners, artists, public employees, and farmers. Housewives and family-aides may join the program voluntarily. More recently, the government with its new emphasis on family and women's issues, has established new supplemental benefits for mothers such as the "baby year" provision, which grants a nonworking mother a one year credit towards retirement for each child borne and raised.

Contributions to the pension fund (currently set at the equivalent of 18.7 percent of each worker's pretax earnings) are paid by both the employer and employee up to an income ceiling that is adjusted every year. For 1989, this ceiling was DM 6100 (US$3389) per month.

The program is administered by 18 regional carriers of blue collar workers' old age insurance and one national carrier for white collar workers. The carriers pay old-age, survivor, and disability pensions. The precondition for the allocation of a pension payment is 15 years of coverage (or 5 years if a miner or age 50 when first covered). The amount of the pension is linked to the duration of the period of insured employment and the amount of income derived from it.

In addition, the national programs are complemented by private company schemes, negotiated between labor and management, or granted on a voluntary basis by the company. In 1974, a law was implemented that substantially improved the legal status of those entitled to such a company pension. In contrast to previous regulations, persons remain entitled to receive a pension, even if they leave the company prior to retirement age, provided that they have worked for the firm for a minimum number of years. If the employer becomes insolvent, pensions are paid from a legally required private fund established for this purpose.

Old age pensions are paid, as a rule, on attaining age 65. To date, earlier retirement (at age 63, the so-called "flexible retirement age" or at age 60) is possible under certain specified circumstances. However, the main feature of a pension reform plan slated to take effect in 1992 (see IV.E. below) will be to gradually increase the current retirement age (currently set at 60 years for women, and 63 years for men) to 65 for both sexes. Starting in the year 2001, the later retirement age for men will be implemented, in stages, by the year 2006; and for women (and the unemployed) by the year 2012. Early retirement will still be possible, albeit with

reduced pension benefits. In turn, those who want to work longer than age 65 will be entitled to higher than normal pension benefits or to a partial pension as long as they continue to work. Finally, the retirement age for the handicapped or persons incapable of work will remain at age 60.

Since 1957, pensions have been regularly adjusted through legislation to reflect the growth of the active work force's current earnings. Due to increasing financial strains on the pension fund, however, the reform bill provides that after 1992 the annual increases will be preserved but will be limited to the net growth of earnings in the previous year.

Payment of pensions is not the only task of pension insurance carriers. They also administer a comprehensive system of rehabilitation measures which become applicable if the insured person's earning capacity (due to illness or other infirmity) is jeopardized or reduced, but is judged restorable. These measures consist of treatment, vocational retraining programs, and social care.

2. Unemployment Insurance System

A nationwide unemployment insurance program provides for mandatory coverage of all blue and white collar workers regardless of their earnings. While the statutory unemployment insurance system dates back to 1927, the current program is based on the Employment Promotion Act of 1969. It is administered by the Nuremberg-based Federal Employment Institute (Bundesanstalt fuer Arbeit, BA) through its network of some 150 regional and local offices. These offices also operate on a monopoly basis job placement, vocational counseling, training, and retraining programs. The program is funded by contributions equally shared between employer and employee. In 1989 unemployment taxes amounted to 4.3 percent of gross earnings, up to a ceiling which is adjusted every year. The ceiling is identical with that of the old age and disability insurance program (see II.C.1. above).

Any unemployed person who has contributed to the fund, is registered as unemployed with the BA, and is willing to accept "tolerable" employment offered by the BA offices, but who cannot be placed, is entitled to draw unemployment benefits ("Arbeitslosengeld"). Such benefits amount to 68 percent of former net earnings (or 63 percent, if single). In general, the benefit is paid for up to 1 year depending on the duration of uninterrupted past employment and contributions. There are more generous regulations for unemployed persons age 42 and older who are entitled to benefits of up to 32 months. For those who do not qualify for unemployment insurance, or have

exhausted their benefits, there is a means-test unemployment assistance program ("Arbeitslosenhilfe") operated by the local authorities. Although this assistance (58 percent of after tax earnings, or 53 percent, if single) is granted for an indefinite period, an applicant has to undergo an annual review of his case to ensure that such assistance should be continued.

Other benefit programs financed by the unemployment insurance fund include vocational training, further training and retraining, incentives to accept job offers, benefits for short-time workers, and bad weather allowances for construction workers.

3. Health Insurance

Virtually all inhabitants of the FRG are covered by health insurance programs. About 90 percent of the population are obligatory or voluntary members of the national health insurance schemes (Gesetzliche Krankenversicherung). The remainder belong to private health insurance programs. Health insurance is mandatory for all blue and white collar workers whose monthly earnings do not exceed a certain ceiling. This ceiling is established at 75 percent of that applicable to the old age and unemployment insurance system. (See II.C.1. above.) For 1989, it was set at DM 4,575 per month (US$2540).

Pensioners, unemployed, apprentices, and students are also covered by mandatory health insurance schemes. Voluntary insurance under the national program for those whose earnings exceed the income ceiling is possible under certain conditions. However, most such persons take private insurance.

The national health insurance system is administered by some 1,200 independent health insurance funds (Krankenkassen) which operate on the basis of a firm or area, or which cater to certain occupations, e.g., technicians, miners, seafarers, or farmers. The funds are free to set the amount of the contributions on their own. They are borne equally by employer and employee and in 1988 averaged together about 13 percent of before tax earnings.

The mandatory health insurance schemes pay out in the event of sickness, maternity, and death, and provide family assistance and measures for early diagnosis and treatment. Under a 1970 law to regulate sick leave payments for blue collar workers, all employers are required to provide "sick leave" payments of full gross wages up to 6 weeks in the case of illness certified by a physician. (The benefit had previously been applicable only to white collar workers.) After 6 weeks, health insurance funds provide sick leave

payments of 80 percent of the regular monthly wages and salaries for up to 78 weeks. In addition, the health insurance funds cover the costs of medical and dental treatment, hospitalization, medication, and prophylactic medical examinations. Up until 1988, this coverage has been almost free of additional charge to the patients (only in very few cases were deductibles charged). However, under the 1988 health care reform plan implemented by the government to halt the spiraling health care costs, different burden sharing and cost containment measures became effective (see IV. E. below).

Maternity benefits are provided to women during pregnancy and after delivery. The insurance program also provides paid leave of up to 5 days a year for each sick child under age 8 requiring care, and for paid care for a child under age 8 during the hospitalization of the insured (or spouse).

4. Accident Insurance

Aid and support for victims of occupational accidents or disease is provided by a comprehensive accident insurance system. This insurance is compulsory for all blue and white collar workers, and for certain categories of the self-employed, such as small businessmen and farmers. Other self-employed persons may join the insurance program on a voluntary basis. Since 1971, children in kindergarten or nursery schools and students in schools and universities are automatically covered free of charge.

The system is administered by over 70 accident insurance agencies (Berufsgenossenschaften) which usually operate on an industry-wide regional basis or cover specific occupations nationally. It is funded by premiums charged the employers only. The agencies independently establish the contribution rates and collect them directly from the employer in the form of a payroll tax averaging 1.5 percent of the gross earnings. Contribution rates differ significantly between the various agencies.

Benefits include medical and hospital treatment, rehabilitation, and cash benefits in the case of permanent or temporary disability as well as survivors benefits. The benefits are annually adjusted in line with wage and salary increases, but follow a different formula than the old age pension adjustment. The program also provides vocational rehabilitation training and assistance in obtaining employment.

The accident insurance agencies are also responsible for both issuing regulations on the prevention and control of occupational diseases and accidents, and for monitoring their application.

5. Maternity Protection, Family Benefits, and Social Welfare Payments

The Federal Child Benefit Act of 1975 provides for financial allowances for every family with children. Administered by the Federal Employment Institute (BA), monthly benefits are paid for every child up to age 16, and in case of children in school, university or vocational training up to age 27. The benefit is DM 50 for the first child, at least DM 70 for the second and DM 140 for each additional child. Parents with low incomes receive higher benefits: up to DM 100 for the second, DM 220 for the third, and DM 240 for each additional child. (In addition, parents are entitled to tax cuts, reflecting the number of children living in their households.)

As part of an accent on family and women's issues, the government introduced the 1986 Child Raising Allowance Act. This entitles mothers (or fathers) to a paid "parental leave". Under this act, the state pays a DM 600 monthly child-raising benefit to the parent taking such "leave" up to a period of 10 months for each child born after January 1, 1986, and for 12 months from 1988 on. During this period, the parent who takes care of the child is protected against dismissal.

Social welfare is commonly described as the "safety net beneath the safety net". This means that those who fall through the cracks in the ordinary system are caught by the social welfare safety net. Under the Social Welfare Act (Sozialhilfegesetz), public assistance is provided to those who are unable to help themselves or incapable of obtaining the help they need elsewhere (e.g., from family members or from the various branches of the regular social insurance system). Every resident of the FRG--native or alien--is entitled to social welfare benefits in times of hardship either as maintenance grants or assistance to help cope with particular circumstances such as disability, illness, or old age.

E. Labor Administration

Labor and social administration in the FRG is under the general supervision of the Ministry of Labor and Social Welfare (Bundesministerium fuer Arbeit und Sozialordnung). Certain responsibilities and functions are entrusted to semi-autonomous organizations such as the Federal Insurance Institute that supervises the mandatory health insurance system, or the Federal Employment Institute (BA) that has a monopoly on job placement and is in charge of the administration of the unemployment fund, vocational counseling, and retraining programs.

Located in Bonn, the Labor Ministry drafts and administers federal labor laws, policies and regulations dealing with employment, unemployment insurance, foreign workers, working conditions, job safety and accident prevention, health care, social security, rehabilitation, and codetermination issues. These laws and regulations, particularly those concerning occupational safety and health, are often quite detailed. However, their administration and oversight is decentralized, and there is no corps of labor inspectors. Instead, the semi-autonomous organizations perform that function, and the courts oversee their performance.

In addition to its domestic responsibilities, the ministry also is active in international labor affairs. It represents the FRG in the International Labor Organization (ILO) and the OECD, and administers bilateral social security agreements, inter alia, with the United States. The ministry's interests abroad are represented by a labor attache corps. There are positions in Washington, Tokyo, London, Paris, Brussels, and numerous other capitals.

III. THE INDUSTRIAL RELATIONS SYSTEM

A. Historical Background and Characteristics

To understand the peculiar nature of the German industrial relations system, it is necessary to focus on its historical background and traditions. In particular, the system has to be understood within the context of the German "Social State" system (see II.A. above). Under the Empire (1871-1918), laws were enacted entitling workers to many social benefits and protections, and for its time, this legislation was the most progressive in the world. These laws, however, were not accompanied by comparable political rights for the average citizen. Indeed, their purpose, in part, was to eliminate issues for the emerging Social Democratic Party and its allied labor arm to use to rally popular support for a radical restructuring of the country.

Within the context of that political struggle over the future shape of society, collective bargaining was a nonissue. A variety of laws enabled the authorities to selectively interfere with union activities and nullify contracts, and the labor organizations themselves were not generally agreed that, given the legal system, collective bargaining made sense. However, by the turn of the century, partially in response to the more pragmatic attitude of the newer Christian labor movement, the social democratic unions had changed their attitude and accepted collective bargaining as a useful means of advancing their members' interests, while awaiting the

political restructuring of society. This change in tactics, in turn, prompted the employers to begin organizing themselves. The collective bargaining agreements, however, remained without legal force.

In World War I, the unions, like the Social Democratic Party, initially supported and cooperated in the government's war effort. However, by 1917, this cooperation began to break down and the government resorted to increasingly dictatorial measures to control the economy, provoking in turn strikes and mounting discontent.

In the wake of collapse of the Empire, the democratic Weimar Republic (1919-33) was established. Under the provisions of its constitution, workers were declared to be under the special protection of the state, and union activity was fully legalized. Works councils were also established in larger firms to represent the social and economic interests of the workers and thus advance "economic democracy". This transformation of the legal structures encouraged the growth of collective bargaining and made unions tend to concentrate their efforts on winning control of, and working through, the works councils. However, the opportunities for the further development of the system were limited by the increasing ideological fragmentation of the unions and the rise of general political intransigence and violence. With the advent of the Depression and massive unemployment, the democratic order was undermined and eventually replaced by the Nazi dictatorship (1933-45). Under that system, collective bargaining, unions, and free employers associations ceased to exist.

With the end of World War II, unions and employers' groups were reestablished in the territory of what subsequently became the FRG, and a far-ranging social dialogue developed over what shape the society's new social, economic, and political institutions, including collective bargaining, should take. A broad consensus emerged that economic concentration, per se, was undesirable, even dangerous, and that the only way the market economy could function safely would be if the power of the enterprises were tempered by free collective bargaining and worker participation or codetermination ("Mitbestimmung") in management.

Following the inauguration of the FRG in 1949, the new government began to develop its programs for rebuilding the economy based on the new consensus. The unions and employers were given autonomous power to regulate wages and hours, and codetermination was established in the coal and steel industries throughout the country. (It had been introduced in the Ruhr district prior to 1949). In May 1951 the government

and the SPD joined to pass the resulting coal-steel codetermination law (Montanmitbestimmungsgesetz) over the opposition of the FDP. This law, which provides full-parity representation of labor and management in the supervisory boards of big mining and steel enterprises, was consistent with the social philosophies of both the CDU/CSU and the SPD.

In 1952, a Works Constitution Act (Betriebsverfassungsgesetz) was passed establishing works councils, based on the idea of partnership and the principles of the traditional works council system. This law granted far-reaching consultation and participation rights in personnel affairs, as well as economic and social matters. That system of codetermination remained unchanged, until the SPD came into power in the late 1960s. At that time, the role of the works council was reviewed, and a law passed in 1972 that expanded union rights. Union officials were given virtually unlimited access to the plants. (Under the 1952 law their admission had been linked to a formal invitation by the works council.) Union representatives were also allowed to participate in plant or plant unit meetings in an advisory capacity, and the works councils were to give the unions timely notice of the date and agendas of such meetings. Another major reform law was the Codetermination Act of 1976 that gave new codetermination rights to employees of large enterprises outside of the iron and steel industries (see III.B.2 below).

As a result of this history, the German industrial relations system consists of a series of statutory mechanisms for sharing power over certain activities within the enterprises, coupled and overlapping with an autonomous private collective bargaining system developed between the unions and employers organizations.

B. Codetermination and Industrial Democracy

The system of codetermination and worker participation is regulated at different levels by various laws enacted between 1951 and 1988. They cover the following two basic spheres: day-to-day social, personnel, and economic matters, which are handled by the works councils; and basic business decisions at the enterprise level, made by supervisory or management boards.

1. The Works Council

The Works Constitution Act first enacted in 1952 and substantially expanded in 1972 applies to all plants with at least five employees. All organized or unorganized workers over age 18 who have been employed for at least 6 months are

entitled to participate in the election of the works councils. The number of members varies according to the size of the company. Members are protected against dismissal for their 3-year period of office and for another year afterwards.

Since 80 to 90 percent of the elected works council members are union members or part-time union officials, the unions have a far-reaching control over this instrument of worker participation. The rights of the works council cover the right to be informed, consulted, and to participate in company decisions. For example, the workers have the right to be informed of contemplated employment changes, and to be informed and consulted on personnel planning, vocational training, and planning concerning work methods. Although a works council cannot prevent dismissals, it can suspend the management decision and the workers must be kept in the job until a final court decision is obtained.

2. Codetermination at the Plant Level

As mentioned in III.A. above, labor representation and participation in economic management, generally referred to as "codetermination", has a long history. In most larger, publicly-owned enterprises, it is implemented by worker membership in the supervisory board (Aufsichtsrat), which appoints and oversees the executive board (Vorstand) that controls the company's day-to-day management. There are three different systems of codetermination:

-- "Parity Codetermination" under the 1951 Coal-Steel Codetermination Act ("Montanmitbestimmungsgesetz")

Parity codetermination exists only in the coal, iron, and steel industries and then only in enterprises with more than 1,000 workers. As of 1988, the law applied to about 27 companies with approximately 360,000 employees. Under this system, the supervisory board is composed of an equal number of workers' and owners' representatives (for example, a minimum of five each), plus a "neutral" outsider to resolve deadlocks. Three of the five labor representatives are nominated by the unions, and two have to be company employees. One member of the board, the so-called "labor director" (Arbeitsdirektor) is in charge of personnel and social matters. By law, this director cannot be appointed or dismissed against the vote of the labor representatives on the supervisory board. In practice, this stipulation has meant that a "labor director" will be a union nominee.

-- "One Third" Codetermination ("Ein Drittel Mitbestimmung")

The law establishing this form of codetermination was passed in 1952, updated, and somewhat expanded in 1972. It applies now to all small and medium sized stock companies with up to 2,000 employees and to enterprises with limited liability employing between 500 and 2,000 persons. It is estimated that the law applies to 80-100,000 companies which together employ approximately 900,000 persons. It provides for one-third worker representation on the supervisory board. Under this system, the influence of labor on management decisions is not as strong as in the coal and steel industries.

-- The 1976 Codetermination Law ("Mitbestimmungsgesetz")

The Codetermination Law of 1976 evolved out of the one-third system and applies only to companies with more than 2,000 employees. It covers about 480 enterprises in all sectors, except mining, steel, and the press. It gives labor equal representation with stockholder representatives on the supervisory board. The law provides that the supervisory board members will elect--by a two-thirds majority--a chairman. If this majority is not reached, the shareholders' general assembly will elect the chairman. The labor representatives will elect the vice chairman. The labor members on the board must include representatives of both blue and white collar workers, and at least one managerial employee (leitender Angestellter). Unions are also represented among the labor members. Their representatives usually come from outside the company, are full-time union officials, and have to be confirmed by the employees of the enterprise. In case of tie votes, the chairman has two votes in the second ballot.

The law also provides for an "industrial relations director" (Arbeitsdirektor) as a full-fledged member of the executive board, responsible for personnel and social affairs. Unlike the "Arbeitsdirektor" under the coal-steel codetermination law, he (or she) can be appointed over the objections of the labor representatives in the supervisory board.

Codetermination remains controversial. Employers strongly oppose "parity codetermination" on the grounds that labor might exercise too much influence on the supervisory board. In 1977, they even challenged constitutionality of the 1976 law, claiming that it would overly curtail property rights. The Federal Constitutional Court rejected the suit, ruling that the Act is compatible with the Basic Law. For the unions, on the other hand, the objective remains the extension of parity codetermination beyond the coal and steel industries. Nonetheless, both sides agree that worker codetermination, as it exists, has been a stabilizing element in industrial relations.

C. The Labor Movement

Before 1933, the German labor movement was divided into rival centers based on political and religious ideologies. After 1945, German labor leaders embraced the idea of trade union unity and industrial, as opposed to craft, unionism. All workers were to be included in one nonpartisan, nonconfessional trade union movement. Jurisdiction between the affiliates was strictly to be on the basis of one industry, one union, and all unions in one confederation.

The new labor movement, the German Trade Union Federation (Deutscher Gewerkschaftsbund, DGB), did not completely achieve its objective. Two large unions and a rival federation have stayed outside the fold. The two unions, the German Salaried Employees Union (DAG) and the German Civil Servants Union (DBB) are competitors of DGB unions. Moreover, although most Christian unionists joined DGB unions, some formed the Christian Union Federation (Christlicher Gewerkschaftsbund, CGB) In contrast to the DGB unions' approximately 7.8 million members, the CGB has less than 300,000. As of 1988, the DGB had 17 member unions ranging in size from the Metalworkers with over 2.6 million members to the Entertainment Workers with under thirty thousand. The seat of the DGB is in Duesseldorf, and those of the affiliates in a number of different cities, including Duesseldorf, Frankfurt, and Stuttgart. (See Appendix C).

The nine-member Executive Board of the DGB, including its President, is elected in convention of delegates from all member unions every 4 years. The Executive Board members and the Presidents of the 17 member unions form the Federal Executive Committee. The DGB's highest decision making body between conventions is the Federal Council, made up of the executive committee members, the presidents of the DGB regional organizations, and of representatives of the DGB's affiliates.

Although the DGB and its affiliates do not endorse political parties or candidates, they do adopt positions on a wide range of issues. At election time, the unions issue so-called "touchstones" comparing party positions on a range of purely trade union, economic, and social issues. The positions of the SPD generally more closely correspond to those of the unions; but the senior member of the ruling coalition, the CDU, also supports many union goals. Although the majority of union leaders and activists are SPD members, the unions generally reserve positions on their Executive Boards for members of the CDU, the other party receiving significant support from the members. Both the SPD and the CDU maintain significant organizations for their members who are unionists. The SPD organization is the AfA (Arbeitsgemeinschaft fuer Arbeitnehmerfragen) which is a relatively loosely structured grouping within the party apparatus. The CDU organization, the CDA (Christlich-Demokratische Arbeitnehmerschaft), on the other hand, is a separate and distinct entity.

German unions are very active in the international trade union movement. They also stake out positions on numerous international union and political issues. They frequently raise funds for solidarity actions in support of unions abroad. All of the DGB's member unions belong to the appropriate International Trade Secretariat(s), and in many instances a German heads it or at least its European section. The DGB is an active participant in the International Confederation of Free Trade Unions (ICFTU), the European Trade Union Confederation (ETUC), the International Labor Organization (ILO), and of the Trade Union Advisory Committee (TUAC) of the OECD.

Although the DGB does not maintain offices abroad, it has close working relations with the SPD affiliated Friedrich-Ebert-Stiftung (FES) which conducts extensive foreign operations including labor programs.

In 1977, the DGB founded the Hans-Boeckler-Stiftung. Its purpose is to promote the further education of union members and to furnish them with qualifications and skills needed for career positions in unions, the economy, and society. To achieve this goal, the Foundation provides individual study grants and supports union training facilities. It is funded by grants from union members sitting in supervisory boards from cooperative enterprises as well as public funds.

D. The Employers Organizations

Up to 90 percent of German employers are organized in industrial associations, the most important of which is that of the Metal Industry (Gesamtmetall). There are also 13 state employer associations grouping various industrial sectors. The joint umbrella group for the 13 is the Federation of German Employers Associations (Bundesvereinigung Deutscher Arbeitgeberverbaende, BDA). Unlike the industrial groups, the BDA does not bargain but represents basic employer interests to the government, at the ILO, in the International Employers Association, and in society at large. The BDA represents its members' interests as employers, only. Their other concerns, (e.g., taxation or trade policy) are addressed by other organizations such as the Federation of German Industries (BDI). These organizations coordinate closely with the BDA. The seats of the BDA and Gesamtmetall are in Cologne.

The BDA also serves as a research organization for employers. It established the Walter-Raymond-Stiftung (Foundation) in 1959, which conducts analytical studies, sponsors meetings, and is exclusively funded by the employers. The BDA also conducts extensive analytical studies of structural change in society and the economy through another related organization, the Institute of the German Economy (Institut der Deutschen Wirtschaft-IW). Both the Walter-Raymond-Stiftung and the IW are headquartered in Cologne.

IV. HIGHLIGHTS OF 1988

A. Labor Market Developments

Despite an overall favorable trend in the FRG's labor market, the year 1988 brought no relief from it's high (almost nine percent) unemployment rate. By the end of the year, total employment had risen by 188,000 persons to 27.388 million, putting total employment back to the 1980 level. The structural change from an industrial to a service economy continued, with most of the new jobs created in the service sector. However, despite rising employment, average unemployment also increased--by 13,000 persons--to a level of about 2.24 million. (The unemployment rate, however, declined slightly from 8.9 percent in 1987 to 8.7 percent in 1988).

This persistently high absolute level of unemployment (about 2.5 times higher than the 1980 level of 890,000) reflects a combination of several factors: slow economic growth, demographic trends (increases in the female participation rate; foreign workers; youth; and Aussiedler), lackluster investment in new capacity, high non-wage labor

costs (on average about 80 percent of wages), and low skill levels and mobility amongst the jobless. In 1989, despite a growth forecast of about 2.5-3.0 percent, employment gains will presumably not be sufficient to absorb the further increase in the labor force, most notably the expected 350,000-400,000 "Aussiedler" (see I.B. above). Consequently, economists of the BA concluded that the unemployment situation would not improve in 1989, and anticipate an increase of roughly 30,000 over 1988.

The high level of unemployment also led to a renewal of the dispute about work time, and in particular the unions' claims that only by reducing the workweek to 35 hours, can enough new jobs be created to eliminate the problem. However, according to the employers' BDA, in 1988 the FRG already had the shortest scheduled work-year (1,697 hours) among 19 industrialized nations of the West (see Table 4 in section II.B.), and so cannot cut work time further and remain competitive internationally.

In the last few years, the most outstanding feature of collective bargaining agreements has been the continuing trend toward a 35-hour workweek, the declared major goal of the DGB and its affiliates. The year 1988 saw the public service finally obtain its breakthrough in that direction. The Public Service Workers' Union (OeTV) negotiated a 3-year agreement for the 2.7 million federal, state, and municipal employees providing for a 38.5 hour workweek in 1990. With that, no major sector in the economy was left working a 40-hour week.

In 1988 a total of 4.7 million workers for the first time had regular workweeks of less than 40 hours. These included, in addition to the workers in the public service, those in textile, banking, and construction. As a result, by the end of the year, 14.6 million workers had contracts calling for regular workweeks of less than 40 hours, although in some cases, these provisions will not take effect until 1989 or 1990. The average regular workweek in Germany in 1988 stood at 38.97 hours. Those new contracts that introduced work time reduction generally produced lower wage raises than those without. Also those contracts containing work time reduction clauses were multi-year contracts, generally of 3 years duration. Contracts without a work time reduction were limited to 12 months. In return for work time reduction, employers have successfully demanded multi-year contracts. These kind of contracts constitute an innovation in the German collective bargaining.

However, during 1988 the issue of work time reductions also took on a new aspect. During the negotiations for the public service, the SPD Minister President of the Saarland,

Oscar Lafontaine, stirred up controversy by suggesting that workers should not always expect to achieve weekly work time reductions while maintaining, or even increasing, their incomes, and that they would have to make sacrifices in terms of wage cuts to help fund new jobs. In the face of mounting criticism from SPD and union circles, he modified his position to the extent that only those workers earning DM 5000 or more would be asked to accept a reduced income. But the money saved by this reduction, Lafontaine said, should be used to create new jobs. (Union critics contended that such workers would comprise only one percent of those covered by labor contracts--hardly enough savings to make a difference.)

Lafontaine's comments renewed widespread discussion over the issue of work-time reduction as a means of generating additional employment opportunities, and the extent to which the employed should sacrifice to help the unemployed. Critics of both Lafontaine and the unions held that the "real" world of the labor market is much more complicated than they seem to imagine. A steelworker laid off in North Rhine-Westphalia, for example, might not necessarily find a new job in an auto plant in the Baden-Wuerttemberg area just because work time had been reduced there; and reducing the hours of engineers will not automatically provide women looking for part-time employment with job opportunities.

B. Collective Bargaining

In 1988, 7,000 new collective bargaining contracts covering approximately 11 million of the 16 million German wage and salary earners were signed. Despite the extensive number of new contracts, strike activity was low and was mostly restricted to warning strikes of short duration most notably during public sector negotiations. At the end of 1988, 32,000 contracts were valid, covering 90 percent of the work force. The contracts ranged in significance from plant level agreements and agreements covering very craft-specific issues to accords covering millions of employees in the case of the agreement for federal, state, and local public employees.

Wage rates varied greatly by industry and skill level. In the case of Berlin blue collar workers, they ranged from DM 4.38 for unskilled workers in the hotel and restaurant trade to DM 23.70 per hour for a skilled stonemason. The wages established by contract serve only as a minimum wage for a given skill level in a given industry. Actual wages are generally higher. For example, in the metal industry in North Rhine-Westphalia, the hourly basic contractual wage for a skilled worker as of April 1, 1988, ranged from DM 13.11 to 17.44 depending on the job. Average effective wages, however,

for metalworkers were DM 20.90 per hour. Shift differentials, bonuses for heavy work and competition among firms for skilled workers can all lead to effective wage rates far exceeding the basic negotiated level.

The 11 million workers covered by new contracts in 1988 received, on average, raises of 3.1 percent. At the low end of the scale were agricultural workers with raises of 1.7 percent. Workers in the timber and wood processing industry, in contrast, received raises of 3.8 percent. The 5.6 million workers covered by existing wage agreements received average raises of 2.2 percent in 1988. This is in line with the general rule of collective bargaining that the greatest increase comes during the first year of a new contract. The overall increase in 1988 was 2.8 percent, somewhat less than the 1987 rate of 3.4 percent. However, with an increase in the consumer price index of only 1.2 percent, these increases more than preserved real purchasing power.

Raises for apprentices in 1988 averaged 2.2 percent. Their wages vary widely from industry to industry with a first year trainee in the clothing industry bringing in DM 198 per month while an apprentice hard coal miner gets DM 999 per month. Unions are concerned not only with the well-being of apprentices but also with the development of their training programs.

Unions also are concerned with further training and retraining of workers after their apprenticeship period. IG Metall in its North Wuerttemberg-North Baden District negotiated a contract with metal employers granting worker representatives considerable influence in the training process. Under terms of the agreement, employers must notify the plant works council of any anticipated need for new technological skills and allow current workers to apply for training to learn the skills. Furthermore, the time spent in training will be considered as work time, and upon completion of the training, the individual is guaranteed a promotion or a pay bonus.

Union contracts determine vacation periods, but since over 50 percent of German workers already receive 6 weeks, an increase was not a serious issue in 1988. Also, there was little increase in vacation or year end bonuses. Ninety-four percent of German workers in 1988 were eligible for a vacation bonus that can amount to as much as one half of the monthly salary. Ninety-two percent of workers were also eligible for a year end bonus that in most cases is equivalent to 1 month's additional salary. In 1988, 19 percent of workers received an increase in the vacation bonus and 3 percent received a year end bonus increase.

C. Internal Trade Union Issues, Unions, and Politics

Organizing the unorganized, adjusting to the changing demands of the work place and the international economic environment, plus the promotion of labor's interests in the political arena were the themes that dominated union discussions in 1988. Trade union congresses, conferences, press interviews, demonstrations, and political party gatherings provided numerous opportunities to debate these themes. Five DGB unions held congresses: the Construction Workers (BSE), Chemical Workers (IG Chemie), the Railway Workers (GdED); the Public Service and Transport Workers (OeTV); and the Banking, Commerce and Insurance Workers (HBV).

Not surprisingly, most of the purely trade union discussions concerned, in one way or another, the search for new members, either to continue organizational growth or to stave off decline. Many hours of discussion and debate were taken up with the issue of organizing the traditionally less organized white collar workers and women. Although many German unions are still growing and are seeking ways to continue that expansion, others like the Construction Workers and particularly the Railway Workers have suffered sharp drops in membership. Some unions (notably the Chemical Workers and the Metalworkers) have studied the needs of the growing white collar/technical sector in their industries and have attempted to develop model agreements that meet the needs of this group. The Chemical Workers were the first to negotiate an accord with employers calling for a unified wage scale for blue and white collar workers, recognizing that the distinction, in at least the highly automated chemical industry, was becoming blurred. That precedent-setting agreement first came into effect in 1988.

A number of unions have begun to also tailor their offerings to the needs of women. The Public Service Workers negotiated for the first time an agreement with public authorities covering part-time workers, a largely female category. In the past, the union had sought to discourage part-time employment, but finally bowed to the need to provide representation for this growing group of workers. In 1988, the Food and Beverage Workers (NGG) reached an accord with the "co op" retail chain that allows parents, who are leaving the work force to raise children, to keep up their training and return to their old jobs--a measure of primary benefit to women. Despite these changes, unions did not always institute the political changes that at least some of their female activists would like to see. Delegates were unsuccessful at the HBV congress in adding a second woman to the union's Executive Board despite the fact that 60 percent of the membership is female. Also, the Construction Workers at their

congress failed to put the first woman on the union's Executive despite a determined push by female delegates and their allies.

German unions, whether or not they faced actual membership loss, sought to develop responses to the threat of restructuring and attendant job cuts. This threat is all too real in the case of the Railway Workers, who have lost approximately 70,000 members in the last 10 years, primarily because of restructuring. The union has attacked its problem in two ways, prevailing on the government to maintain and increase support for rail transport, and seeking to ensure that new transport regulations coming in the wake of the unification of EC's Internal Market do not further promote road transport at the expense of rail.

The issue of work time flexibility, the willingness of unions to allow employers to tailor plant operating schedules to technological changes, generated considerable rhetorical heat in 1988. It is a complex issue and it is sometimes debated on the somewhat symbolic level of the pros and cons of Sunday work. German labor has fought long and hard for the principle of free weekends, and there is, therefore, great resistance to scheduling Saturday work. The issue of Sunday work generates even more heated debate, even though its performance is basically subject to strict legal limitations. The two clearest and most conflicting views on the issues of flexibility in general and Sunday work specifically were represented by the Metalworkers and Chemical Workers unions.

The discussion over flexibility in 1988 was at least partially driven by concerns over the impact on German labor and social standards by the unification of EC's Internal Market scheduled for completion at the end of 1992. As German workers generally earn more and work fewer hours than other European workers, there is concern on the part of labor leaders that the easing of restrictions on capital and goods movements could bring a flight of manufacturing to other EC countries. No German union, however, opposes the unification process. The Chemical Workers have argued that flexibility in work time scheduling is the key to surviving the increased competition that 1992 will bring. IG Metall and other unions, on the other hand, have rejected any such compromises, arguing that the Internal Market cannot be used as a justification for lowering German standards, particularly in light of the high profitability of the German metal industry.

Despite differences on the flexibility issue, German unions do share some views on the Internal Market and how it should be handled. For example, all of the unions are pushing for the concept of mandatory minimum EC-wide labor and social

standards, with the idea that German levels should not go down but the rest of the community's should go up.

Union dissatisfaction with the government was also evident in 1988. A number of government reform measures including Health and Tax Reform and reorganization of the Postal system came in for criticism from union leaders. In response to a DGB led series of demonstrations against the government legislative agenda, a CDU official charged that the unions were abusing dues money for political propaganda purposes. At the end of the year, Ulf Fink, the Chairman of the CDU's labor wing (CDA), felt it necessary to remind his union colleagues that a bridge to the ruling parties must be maintained.

D. International Activities

In addition to its concerns over 1992, another major international item for the unions was East-West relations. German unions were enthusiastic pioneers of "Ostpolitik" or rapprochement with communist regimes in eastern Europe and the Soviet Union. The DGB and member unions established bilateral exchange agreements with labor organizations both in the Soviet Union and other Warsaw Pact nations. The level of this activity continued unabated in 1988, although the course of reform in the Union of Soviet Socialist Republics (USSR) and several other communist countries has raised some questions about the value of contacts with the official unions in those countries. German union observers noted that in the USSR those organizations purportedly representing workers were resistant to the reform plans. Several articles in DGB union publications during the course of the year noted the lack of enthusiasm for reform in certain "union" circles in the East. Even the relations between the DGB and the East German union federation, FDGB, received a set back when a DGB youth delegation curtailed an official visit to East Germany when they were prevented from meeting with dissidents in East Berlin.

As in past years, German unions in 1988 devoted considerable energy to their campaign against Apartheid and to providing political and material support for black South African trade unionists. The most active campaigner against Apartheid was IG Metall. The union was successful in gaining the agreement of German metal firms with South African subsidiaries to establish a code of conduct for those operations. The agreement commits the employers to provide essentially the same rights for their black South African workers as are enjoyed by workers in the FRG.

Other unions and the DGB itself were also active on the apartheid issue. The DGB adopted a detailed list of sanctions against South Africa that it presented to the German government. Already on record as demanding a boycott of South African products, the federation added a demand for the reduction of the number of South African diplomats in Bonn, the implementation of visa requirements for South African citizens, the withdrawal of landing rights for South African Airways, and the ending of Lufthansa flights to South Africa.

The level of German participation in international trade union organizations remained high in 1988. DGB President Ernst Breit was part of a delegation from the International Confederation of Free Trade Unions (ICFTU) that met with President Reagan to discuss disarmament. Breit is a Vice-President of the organization as well as President of the European Trade Union Confederation (ETUC). In late 1988, the President of the Chemical Workers Union (IG Chemie), Hermann Rappe, was elected to head the International Chemical, Energy and General Workers Federation (ICEF). Also in 1988, the President of the Textile and Clothing Workers (GTB), Berthold Keller, was elected President of the Textile, Garment and Leather Workers International.

During the course of the year, German unions spoke out in defense of striking Polish workers and imprisoned Chilean union leaders as well as on a wide range of other international issues. Contact with American unions was carried out on a mostly ad hoc basis with a few exceptions where U.S. and German unions have maintained bilateral exchange programs. In 1988 the Chemical Workers, Public Service and Transport Workers, and Postal Workers hosted U.S. trade union groups. Bilateral contacts with Eastern European and Soviet labor organizations and even South African unions exceeded U.S.-FRG contacts.

E. Social Net Developments

There is a consensus between the government, organized labor, and management that social stability and peace require an effective and sustainable social welfare system. Thus, the FRG's comprehensive social net provides generous benefits. Its spiraling costs, however, accelerated by a "consumer mentality" on the part of both the insured and the providers, have become a matter of increasing concern. Despite several cost containment exercises during the past 6 years, the total annual expenditures of the overall social budget rose to a record high of an estimated DM 660.2 billion in 1988--an increase of about DM 30 billion DM over 1987.

The most serious budget problem is the FRG's generous and costly health care insurance system. The rising costs of drugs and treatment, combined with the growing numbers of older citizens needing more health care, intensified pressures on the health care insurance funds. Total health care expenditures rose by 6.4 percent to an estimated DM 132.2 billion in 1988 (a 5-fold increase compared with 1960, when total health care expenditures amounted to DM 27.1 billion). Although the autonomous health care funds reported revenue increases of about DM 7 billion for 1988 (reflecting both increased total contributions and rates), they nevertheless incurred a deficit of around DM 1 billion--raising the accumulated deficit for the past 3 years to over DM 7.5 billion.

In 1988 in view of the steady growth in costs, the government proposed a health care reform bill, which was the most serious effort to date to restructure the health care system. After several months of extensive hearings, lobbying, and political maneuvering, the law finally enacted (effective January 1, 1989) did not produce a consensus, and could fall short of what is needed to control costs (critics argue that the final version of the bill does little to eliminate the structural reasons for the burgeoning health care costs, above all the overcapacity in hospital beds). However, according to the Labor Ministry, the estimated net savings in 1989 will be DM 6.4, DM 10.9 in 1990, DM 11.8 in 1991, and DM 13.6 billion in 1992.

The main feature of the reform is a "fixed reimbursement scheme" (Festbetragsregelung) for drugs of equivalent composition and application, i.e. the introduction of negotiated ceilings on the reimbursement of payments for medicines, etc. that are "equivalent" on the basis of the cost of the cheaper "generic" rather than the "proprietary" products. (It is also intended to stimulate price competition between producers of proprietary drugs.) A national committee of physicians, druggists, and hospital administrators will determine which medications can be considered equivalent. The Ministry hopes that by this means it will be possible to establish this system for about 60 percent of all drugs.

Other elements of the reform law provide for the introduction of higher deductibles for dental care treatment, limits on payments for taxi transportation to and from medical treatment, price limits for glasses and contact lenses, and a 50 percent increase in the current fee (DM 2 to DM 3) for each prescription. Nonetheless, discussion on the enacted health reform continues, and it is expected that there will be further proposals on ways to improve the system.

Old-Age Pension Reform: General Agreement Reached -- In 1988, to avoid a financial strain on the FRG's generous old age pension system in the next decade, the government took steps to reform the existing program. As in other industrialized countries, the pension system is being affected by two major demographic developments: a declining birth rate and an aging population. Continuations of these trends, coupled with the recent persistently high unemployment rate, would mean that the growing number of beneficiaries and the declining number of contributors will create a deficit in the pension fund by 1991, at the latest. (The old age pension fund operates on a pay-as-you-go basis and is legally required to keep a reserve of 1 month to 1.5 month's average expenditures). Even under most favorable circumstances, pension experts estimated that within 15 years the total deficit would swell to DM 350 billion (ca. US$190 billion).

Unlike in the proceedings in the health care reform law, the government did obtain the support of the opposition SPD to go ahead with necessary structural changes in the system. In early February 1989, a compromise formula was hammered out that will serve as a basis for further fine tuning during the course of the year. The reform is slated to take effect January 1, 1992.

The main feature of the proposed reform concept is the provision to gradually increase the current retirement age (60 years for women, 63 years for men) to 65 for both sexes. Starting in the year 2001, the later retirement age for men will be implemented, in stages, by 2006; and for women and the unemployed by the year 2012. While the government originally planned to increase the retirement age as of 1995, the SPD insisted on a deferred implementation, arguing that the FRG would probably still be facing a high unemployment problem in the mid-1990s. However, early retirement will remain possible, albeit with reduced pension benefits. In turn, those who want to work longer than age 65 will be entitled to higher than normal pension benefits or to a partial pension as long as they continue to work. (The retirement age for the handicapped or persons incapable of work will remain at age 60.) The annual pension COLA adjustment will be linked to the net growth of the work force's earnings in the previous year. The current contribution rate of 18.7 percent of gross earnings up to an annually adjusted ceiling (borne equally by employers and employees) will be frozen until 1992. Thereafter, the contribution rate will gradually be increased to 21.5 percent by the year 2010. (Without the reform, the contribution rate could have risen to 25 percent of gross earnings.) The federal subsidy to the pension fund will be increased by DM 2.6 billion (ca. US$1.4 billion) before the implementation of the reform

law. From 1992 onward, the federal budget will subsidize the pension fund with an additional DM 4.8 billion (ca. US$2.6 billion) per year. (The subsidy is to be increased because the pension fund will have to pay the benefits under the so-called "baby year" provision, which entitles mothers who stayed home to raise their children to their own pension claim. See II.C.5 above). According to preliminary statistics the total amount of the federal subsidy will rise from DM 38.4 billion (ca. US$21.3 billion) in 1992 to DM 73.8 billion (ca. US$41 billion) in 2010. The eligibility requirements to receive a minimum income pension will be changed as well. Under the current formula, low income earners need at least 25 years of insured employment to qualify for a benefit (granted on the basis of 75 percent of average earnings). The draft law now provides for a minimum of 35 years of insured employment. Finally, the Federal Employment Institute will have to pay higher contributions for the unemployed to the pension fund, calculated at 80 percent (instead of the current 40-50 percent) of a persons' last income before taxes.

Initial reactions to the agreement suggests that the reform concept will most likely not become the same target of partisan political haggling as did the health care reform package.

VI. APPENDIX

A. STATISTICAL HIGHLIGHTS, 1988

1. Population: 61,315,300 (September 1988)

2. Civilian Labor Force: 27,291,500 (average for 1988)

3. Unemployed: 2,242,000 in average, for an unemployment rate of 8.7 percent, about 15 times higher than in 1970.

4. Civilian Employment: 26,796,500 persons working (estimated average), including self-employed and family-workers.

5. Wage and Salaried Workers: 22,926,000 on civilian payrolls (estimated average).

6. Women Workers: 39.4 percent of the labor force, compared with 36 percent in 1970.

7. Foreign Population: 4,776,700 in December 1988, compared to 2,976,500 in 1970

8. Foreign Workers: 1,592,000 in June 1988, compared to 1,807,000 in 1970.

9. Union Membership: 9.4 million total, 7.8 million of them in the German Trade Union Federation (DGB), with union membership constituting about 41 percent of the eligible labor force.

10. Average Pay of Industrial Worker: 742 DM per week. Hourly gross average wages were 18.43 DM.

11. Average Workweek for Industrial Worker: 40.5 hours in 1988 compared to 43.8 in 1970.

12. Strikes and Lockouts: 41,880 working days lost in 1988.

B. EMPLOYMENT IN THE FRG* (FIGURES IN 1000)

	1987	1988	Changes
Labor Force**	28,125	28,288	+ 163
Employed Persons**	25,813	25,937	+ 124
-- Wage and Salaried Employees	22,562	22,701	+ 139
-- Self Employed/ Family Helpers	3,251	3,236	- 15
Categories of Wage and Salaried Employed**			
-- Blue Collar Workers	10,084	n.a.	
-- White Collar Workers	10,203	n.a.	
-- Civil Servants	2,420	n.a.	
Sectoral Employment**			
-- Goods Producing	10,435	10,381	- 54
-- Services Producing	9,381	9,561	+ 180
-- Others	5,997	5,995	- 2

*In the wake of 1987 census findings, the FSO is carrying out a comprehensive revision of employment statistics, which has not yet been published. Therefore, available data are estimated and provisional, based on the old micro census findings. They reflect average employment figures for the first 6 months in 1987 and 1988.

**Including Armed Forces
Source: Federal Statistical Office (FSO), Wiesbaden

C. UNION MEMBERSHIP 1988 YEAR END

		Changes
German Trade Union Federation (DGB) (Duesseldorf)	7,804,418	+ 47,379
Chemical, Paper, and Ceramics Workers (IG Chemie, Hannover)	662,586	+ 6,810
Commerce, Banking and Insurance Workers (HBV, Duesseldorf)	393,399	+ 8,233
Construction Workers (IGBSE, Frankfurt)	469,135	- 6,440
Entertainment Workers (GK, Duesseldorf)	29,438	+ 998
Farm and Forestry Workers (GGLF, Kassel)	44,617	+ 1,364
Food and Beverage Workers (NGG, Hamburg)	270,506	+ 2,951
Leather Workers (GL, Stuttgart)	46,948	- 711
Metalworkers (IGM, Frankfurt)	2,624,521	+ 15,274
Mine and Energy Workers (IGBE, Bochum)	345,000	- 2,500
Police (GdP, Hilden)	161,235	+ 2,347
Postal Workers (DPG, Frankfurt)	471,125	+ 7,418
Printing and Paper Workers (IG Druck, Stuttgart)	150,259	+ 5,205
Public Service and Transport Workers (OETV, Stuttgart)	1,219,986	+ 17,357
Railway Workers (GdED, Frankfurt)	329,904	- 10,191
Teachers (GEW, Frankfurt)	187,422	- 1,439

DGB Unions cont'd:		
Textile Workers (GTB, Duesseldorf)	253,493	- 924
Wood and Plastic Workers (GHK, Duesseldorf)	144,763	+ 1,627
Confederation of Civil Service Officials (DBB) (Bonn)	786,948	+ 1,372
German Salaried Employees' Union (DAG) (Hamburg)	496,832	+ 2,706
Christian Trade Union Confederation (CGB) (Bonn)	306,847	- 682
TOTAL	9,395,045	+ 50,775

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